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ANNUAL REPORT



NORTHROP GRUMMAN FEDERAL CREDIT UNION

# Northrop Grumman Federal Credit Union

## Board of Directors



**Phil Harrott**  
Chairman



**Georgetta Wolff**  
1<sup>st</sup> Vice-Chairman



**Mitch Mroz**  
2<sup>nd</sup> Vice-Chairman



**Stan Swenson**  
Secretary/Treasurer



**George Bardizbanian**  
Director



**Steve Considine**  
Director



**Nils Johnson**  
Director



**Hugh Jones**  
Director



**Bernie Slotnick**  
Director



**Brian Soto**  
Director



**Dick Underhill**  
Director

# Your Participation Makes a Difference

Despite the challenges brought about by a sluggish economy and dynamic changes in member demographics, 2002 proved to be a banner year for Northrop Grumman Federal Credit Union as evidenced by growth in shares, assets and membership. Shares grew at record levels as investors pulled money out of an uncertain stock market with a heightened appreciation for the security offered by the Credit Union's insured savings. Loans and assets grew as borrowers enjoyed the expanded buying power of extremely low interest rates for both consumer and real estate loans. Finally, as Northrop Grumman Corporation expanded its influence into every region of the United States, the Credit Union remains busy implementing service solutions to a varied and geographically disbursed membership base.

With its growth, the Credit Union has made every attempt to develop and provide appropriate service channels to its members. From the Credit Union's Internet branch solution called the\_Max!, to participation in the CO-OP ATM network with its over 15,000 ATMs, or more traditional access through the Service Center (FSCC) network that allows our members to complete transactions on their NGFCU accounts at network branches operated by other credit unions, the Credit Union expands its reach to all members wherever they live or work.

Looking to the future, the Credit Union will provide more branch locations, more ATMs, a myriad of inventive services, and ultimately make every reasonable effort to encourage your continued active participation in Northrop Grumman Federal Credit Union.

Thank you,



P. R. Harrott  
Chairman  
Board of Directors

*Our mission statement reflects our dedication to all members...*

“Northrop Grumman Federal Credit Union, as a member-owned financial cooperative, exists to provide efficient, attractively priced financial products and services to satisfy the requirements of its membership.”

# Consolidated Statement of Financial Condition

DECEMBER 31, 2002

<b>ASSETS</b>	
Cash and cash equivalents	\$ 55,237,958
Investments	
Available-for-sale	108,663,724
Other	3,855,275
Loans to members, net of the allowance for loan losses	216,668,258
Accrued interest receivable	1,747,522
Property and equipment	3,341,544
National Credit Union Share Insurance Fund deposit	2,957,478
Other assets	3,861,117
	<u>\$ 396,332,876</u>

## **LIABILITIES AND MEMBERS' EQUITY**

<b>LIABILITIES</b>	
Member's shares	\$ 341,277,000
Accrued expenses and other liabilities	3,016,137
Total liabilities	344,293,137
Commitments and contingent liabilities	
<b>MEMBERS' EQUITY</b>	
Retained earnings, substantially restricted	50,383,764
Accumulated other comprehensive income	1,655,975
Total members' equity	52,039,739
	<u>\$ 396,332,876</u>

# Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 2002

<b>INTEREST INCOME</b>	
Interest on loans to members	\$ 16,980,212
Interest on investments and cash equivalents	6,031,642
	<u>23,011,854</u>
<b>INTEREST EXPENSE</b>	
Dividends on members' shares	\$ 7,128,519
<b>NET INTEREST INCOME</b>	15,883,335
<b>PROVISION FOR LOAN LOSSES</b>	2,350,750
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	13,532,585
<b>NON-INTEREST INCOME</b>	
Gain on sale of loans	2,404,394
Gain on sale of investments	295,122
Other non-interest income	2,701,626
	<u>5,401,142</u>
	\$ 18,933,727
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	
Salaries and benefits	7,330,122
Operations	6,664,430
Occupancy	1,191,091
	15,185,643
<b>NET INCOME</b>	\$ 3,748,084

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2002

<b>NET INCOME</b>	\$ 3,748,084
<b>OTHER COMPREHENSIVE INCOME</b>	
Unrealized holding gains on investments classified as available-for-sale	547,078
Reclassification adjustment for realized gains on investments included in net income	(260,947)
<b>COMPREHENSIVE INCOME</b>	<u>\$ 4,034,215</u>

*The accompanying notes are an integral part of these statements.*

# Consolidated Statement of Members' Equity

FOR THE YEAR ENDED DECEMBER 31, 2002

	Retained Earnings		Accum. Other Comprehensive Income	Total
	Appropriated Regulatory	Unappropriated	Net Unrealized Gains (Losses) on Available-for-Sale Investments	
Balance,				
December 31, 2001	\$ 8,282,222	\$ 38,353,458	\$ 1,108,897	\$ 47,744,577
Net Income		3,748,084		3,748,084
Net Change in Unrealized Gains (Losses) on Available-for-Sale Investments			547,078	547,078
Appropriations	(1,056,019)	1,056,019		0
Balance,				
December 31, 2002	<u>\$ 7,226,203</u>	<u>\$ 43,157,561</u>	<u>\$ 1,655,975</u>	<u>\$ 52,039,739</u>

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, 2002

## OPERATING ACTIVITIES

Net income	\$ 3,748,084
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of net premium on investments	1,055,192
Provision for loan losses	2,350,750
Depreciation and amortization	1,022,375
Gain on sale of investments	(295,122)
Proceeds from sales of loans	21,696,299
Decrease in accrued interest receivable	180,346
Increase in other assets	(1,466,574)
Decrease in accrued expenses and other liabilities	(2,540,872)
Net cash provided by operating activities	<u>25,750,478</u>

## INVESTING ACTIVITIES

Purchases of available-for-sale investments	(74,469,594)
Proceeds from available-for-sale investments	85,883,747
Net increase in other investments	(170,923)
Net increase in loans to members	(43,185,934)
Decrease in the National Credit Union Share Insurance Fund deposit	3,591
Purchases of property and equipment	(1,242,579)
Net cash used in investing activities	<u>(33,181,692)</u>

## FINANCING ACTIVITIES

Net increase in members' shares	31,674,322
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>24,243,108</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>30,994,850</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 55,237,958</u>

## SUPPLEMENTAL CASH FLOW INFORMATION:

Dividends paid on members' shares	<u>\$ 7,344,000</u>
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The accompanying notes are an integral part of these statements.

# Notes To Consolidated Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

**Organization:** Northrop Grumman Federal Credit Union (the credit union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

**Principles of Consolidation:** The accompanying consolidated financial statements include the accounts of the credit union and its wholly owned subsidiary, Flight Plan Financial Services, Inc., a credit union service organization, which provides investment and insurance products for members. Material intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates in the Preparation of Financial Statements:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses.

**Cash and Cash Equivalents:** Cash and cash equivalents consist of cash on hand, demand deposits, and non-term share deposits in a corporate credit union. For purposes of reporting cash flows, loans to members, other investments, and members' shares are reported net.

**Investments:** Investments that the credit union has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Investments that the credit union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as a separate component of equity. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their costs that are other than temporary result in write-downs of the individual securities to their fair value. Other investments are classified separately and are stated at cost.

**Loans to Members and Allowance for Loan Losses:** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and deferred net loan origination fees. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The credit union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by non-payment of a monthly installment by the due date.

Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the credit union does not separately identify individual consumer and residential loans for impairment disclosures.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the credit union's

past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.

**Transfers and Servicing of Financial Assets:** The credit union accounts for transfers and servicing of financial assets in accordance with SFAS No. 140, Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities. SFAS No. 140 requires application of a financial component's approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. The statement also distinguishes transfers of financial assets that are sales from transfers of financial assets that are secured borrowings.

**Accrued Interest on Loans:** Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged off is reversed against interest income. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

**Property and Equipment:** Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

**National Credit Union Share Insurance Fund Deposit:** The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each federally insured credit union in an amount equal to 1% of its insured members shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA Board.

**NCUSIF Insurance Premium:** The credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2002 and 2001 insurance premiums.

**Members' Shares:** Members' shares are the savings deposit accounts of the owners of the credit union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the credit union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the credit union. Dividend rates are set by the credit union's Board of Directors.

**Income Taxes:** The credit union is exempt, by statute, from federal and state income taxes. The credit union's wholly owned subsidiary, Flight Plan Financial Services, is subject to federal and state income taxes.

**Reclassifications:** Certain account reclassifications have been made to the 2001 consolidated financial statements in order to conform to classifications used in the current year.

# Notes To Consolidated Financial Statements

## 2. LOANS TO MEMBERS

Loans to members consist of the following:

Mortgage loans:	
Fixed rate	\$ 62,437,027
Variable rate	6,925,808
Home equity line of credit, variable rate	34,701,687
	<u>104,064,522</u>
Vehicle loans	96,919,865
Consumer loans, primarily unsecured	18,834,327
	<u>219,818,714</u>
Deferred net loan origination costs	55,776
Allowance for loan losses	<u>(3,206,232)</u>
	<u>\$ 216,668,258</u>
Weighted average yield	<u>7.6%</u>

On December 31, 2002, the credit union sold its unsecured credit card portfolio. The balance of credit card loans at the date of sale was \$14,025,771. Total cash proceeds from the sale were \$15,634,780. The transaction resulted in a net gain to the credit union of \$2,355,102, net of selling costs and including a portion to be received in the future dependent on the performance of the portfolio. Under the terms of the agreement, the credit union is prohibited from offering credit cards to the membership for six years from the date of sale. The credit union also entered into an agreement to service the portfolio from the time of purchase through May 31, 2003. The loans were sold without recourse.

In the ordinary course of business, the credit union makes loans to its directors and officers at the same terms as those prevailing at the time of origination for comparable transactions with other members. Loans to directors and officers at December 31, 2002 total \$1,247,383.

The following is an analysis of the allowance for loan losses:

Balance, beginning of year	\$ 2,499,818
Provision for loan losses	2,350,750
Recoveries	180,407
Loans charged off	<u>(1,824,743)</u>
Balance, end of year	<u>\$ 3,206,232</u>

Loans on which accrual of interest has been discontinued or reduced amounted to \$3,497,000 at December 31, 2002.

Outstanding mortgage loan commitments at December 31, 2002 total approximately \$2,410,000.

Available credit on home equity and unsecured lines of credit is summarized as follows:

Home equity	\$ 27,964,000
Other consumer	50,181,000
	<u>\$ 78,145,000</u>

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the credit union. These commitments are not reflected in the consolidated financial statements.

Mortgage loans serviced for Fannie Mae are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of these loans at December 31, 2002 is \$6,243,000.

## 3. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

Data processing equipment	\$ 5,348,096
Facility improvement	2,830,014
Furniture and equipment	3,453,270
	<u>11,631,380</u>
Accumulated depreciation and amortization	<u>(8,289,836)</u>
	<u>\$ 3,341,544</u>

The credit union leases five offices. The operating leases contain renewal options and provisions requiring the credit union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2002 are as follows:

2003	\$ 834,000
2004	818,000
2005	831,000
2006	763,000
2007	791,000
Subsequent years	1,310,000
	<u>\$ 5,347,000</u>

Rental expense for the year ended December 31, 2002 for all facilities leased under operating leases totaled \$778,000.

## 4. MEMBER'S SHARES

Member's shares and weighted average costs are summarized as follows:

Regular shares	1.3%	\$ 112,303,056
Share draft accounts	0.5%	44,433,276
Money market accounts	1.4%	103,152,507
Non-Term Individual retirement accounts	1.3%	6,028,099
Certificates (including IRA certificates)	3.0%	74,887,390
		<u>340,804,328</u>
Dividends payable		472,672
	1.6%	<u>\$ 341,277,000</u>

Shares by maturity as of December 31, 2002 are summarized as follows:

No contractual maturity	\$ 265,916,938
0 - 1 year maturity	64,936,928
1 - 2 years maturity	6,454,390
2 - 3 years maturity	1,597,403
3 - 4 years maturity	593,331
4 - 5 years maturity	1,305,338
	<u>\$ 340,804,328</u>

Regular shares, share draft accounts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities as noted above.

Members' shares are insured up to \$100,000 through the National Credit Union Share Insurance Fund.

The aggregate amount of member share accounts with balances in excess of \$100,000 as of December 31, 2002 is approximately \$101,030,000.

# Notes To Consolidated Financial Statements

## 5. CONCENTRATIONS OF CREDIT RISK

Participation in the credit union is limited to those individuals who qualify for membership. The field of membership is defined in the credit union's bylaws. A large percentage of the credit union's members are employees or former employees of Northrop Grumman Corporation. Further, a significant concentration of members resides in Southern California. Although the credit union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the aerospace industry or the overall geographic region in which borrowers reside.

## 6. COMMITMENTS AND CONTINGENT LIABILITIES

The credit union utilizes a demand loan agreement with several corporate credit unions. The terms of these agreements call for the pledging of all assets as security for any and all obligations taken by the credit union under these agreements. These agreements provide for a credit limit of \$10,300,000 with interest charged at a rate determined by the lenders on a periodic basis. Currently, there is no outstanding balance under these agreements. The agreements are reviewed for continuation by the lenders and the credit union annually.

The credit union is a member of the NCUA Central Liquidity Facility (Facility), which was formed to assist member credit unions in meeting short-term liquidity needs. Membership is obtained through investment in shares of the Facility as determined by a statutory formula. As of December 31, 2002, the credit union had not borrowed from this Facility.

The credit union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the credit union.

The credit union has no outstanding commitments to sell loans or investments at December 31, 2002.

## 7. EMPLOYEE BENEFITS

The credit union staff are participants in the pension plan of Northrop Grumman Corporation. Since the credit union staff are only fractional participants in the plan, it is not practicable to disclose actuarial benefit data. The credit union funds the plan through Northrop Grumman Corporation.

## 8. MEMBER'S EQUITY

Beginning in 2001, well-capitalized credit unions are no longer required by regulation to make statutory transfers to a regular reserve. The regular reserve is appropriated out of retained earnings and is to be used for absorbing loan losses and such other losses that may be specified in the regulations. This reserve is not related to the amount of losses actually anticipated and the appropriations thereto have not been charged against income. This reserve represents a regulatory restriction of retained earnings and is not available for the payment of dividends.

The credit union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the credit union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the credit union must meet specific capital guidelines that involve quantitative measures of the credit union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The credit union's capital amounts and classification are also subject to qualitative judgments by the regu-

lators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over \$10,000,000 in assets are also required to determine if they meet the definition of a "complex" credit union as defined by regulation. If the credit union falls under the "complex" category, an additional risk-based net worth (RBNW) requirement is imposed that could result in capital requirements in excess of minimum levels established for non-complex credit unions.

Key aspects of the credit union's minimum capital amounts and ratios are summarized as follows:

Is the credit union considered "complex?" No

<u>General Capital Requirements:</u>	<u>Amount</u>	<u>Ratio/Requirement</u>
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• Amount needed to be classified as "adequately capitalized"	\$23,779,973	6.0%
• Amount needed to be classified as "well capitalized"	\$27,743,301	7.0%
• Actual net worth	\$50,383,764	12.7%

As of December 31, 2002, the most recent notification from the NCUA categorized the credit union as well capitalized under the regulatory framework for prompt corrective action and therefore, the credit union is not subject to any mandatory or discretionary supervisory actions by the NCUA. There are no conditions or events since that notification that management believes has changed the credit union's category.

## 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the credit union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the credit union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:

**Investments** – Estimated fair values for investments are obtained from quoted market prices where available. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

**Loans to Members** – The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The estimated fair value for variable rate loans is the carrying amount.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

# Notes To Consolidated Financial Statements

**Members' Shares** – The estimated fair value of demand deposit accounts (regular share, share draft, money market and IRA share accounts) is the carrying amount. The fair value of fixed-maturity certificates is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

## Other On-Balance-Sheet Financial Instruments

Other on-balance-sheet financial instruments include cash and cash equivalents, and accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

**Off-Balance-Sheet Financial Instruments** – The fair values for the credit union's off-balance-sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the member. The estimated fair value of these commitments is not significant. The estimated fair value of the credit union's financial instruments are summarized as follows:

Financial Assets:	Carry Amount	Fair Value
Cash and cash equivalents	\$ 55,238,000	\$ 55,238,000
Investments available-for-sale	108,664,000	108,664,000
Other investments	3,855,000	3,855,000
Loans to members	216,668,000	216,845,000
Accrued interest receivable	1,748,000	1,748,000
Financial Liabilities:		
Members' shares	\$ 341,277,000	\$ 342,612,000

## 10. INVESTMENTS

Investments classified as available-for-sale consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Federal agencies securities	\$ 40,173,316	\$ 593,349	\$ 0	\$ 40,766,665
Mortgage-backed securities	66,834,433	1,073,039	(10,413)	67,897,059
	<u>\$ 107,007,749</u>	<u>\$ 1,666,388</u>	<u>\$ (10,413)</u>	<u>\$ 108,663,724</u>

Other investments consist of the following:

NCUA Central Liquidity Fund	\$ 1,125,475
Certificates of deposit in banks and savings institutions	94,661
Member capital account in a corporate credit union	1,635,139
Permanent capital account in a corporate credit union	<u>1,000,000</u>
	<u>\$ 3,855,275</u>

Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity.

Permanent capital accounts are uninsured equity capital accounts and are redeemable only if called by the corporate credit union. Member capital accounts are uninsured equity capital accounts that may be redeemed with a three-year notice. The fair value of other investments approximates book value.

Gross realized gains and losses on sales of available-for-sale investments were \$320,088 and 24,966, respectively, in 2002.

At December 31, 2002, there was approximately \$51,856,000 in credit union and bank deposits with individual balances in excess of the insured limit and no contractual maturity.

Investments by maturity are summarized as follows:

	Available for-Sale	Other	Total
No contractual maturity	\$ 0	\$ 3,760,614	\$ 3,760,614
1-5 years maturity	12,713,174	94,661	12,807,835
Over 5 years maturity	28,053,492	0	28,053,492
Mortgage-backed securities	67,897,058	0	67,897,058
	<u>\$ 108,663,724</u>	<u>\$ 3,855,275</u>	<u>\$ 112,518,999</u>
Weighted average yield	<u>4.4%</u>	<u>2.6%</u>	<u>4.3%</u>

Expected maturities of debt securities, including mortgage-backed securities, may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are, therefore, classified separately with no specific maturity date. Member and permanent capital accounts have been classified with no contractual maturity.

# Independent Auditor's Report

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Supervisory Committee  
Northrop Grumman Federal Credit Union  
Gardena, California

We have audited the accompanying consolidated statement of financial condition of Northrop Grumman Federal Credit Union (a federally chartered credit union) and Subsidiary as of December 31, 2002 and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northrop Grumman Federal Credit Union and Subsidiary as of December 31, 2002 and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "McGladrey & Pullen, LLP". The signature is written in a cursive, flowing style.

Los Angeles, California  
February 12, 2003

# On the Cover



Coming in 2003, our new MasterCard design features imagery that illustrates the Northrop Grumman Corporation areas of influence: sea, land, air, space and cyberspace. Carry it with pride!

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## Board Members Emeritus

**Betty Burtis**  
**Ted Hruska**  
**Dick Lindsey**

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## Supervisory Committee

**Al Eldridge**  
Chairman

**Ted Hruska**  
Member

**Nils Johnson**  
Member

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## Credit Committee

**Jim Barnfather**  
Chairman

**Pat Phillips**  
Member

**Dick Winters**  
Member

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# Locations Serving the Membership

**Gardena - Main Office**  
879 W. 190th Street  
Gardena, California 90248  
Free ATM Location: On site

**Antelope Valley**  
1154 Commerce Center Drive  
Lancaster, California 93534  
Free ATM Locations: On site and  
3520 E. Avenue M  
Lancaster, California

**Azusa**  
1100 Hollyvale St.  
Azusa, California 91702  
Free ATM Location: On site  
Restricted access

**Metro LA**  
One Gateway Plaza  
Los Angeles, California 90012  
Free ATM Location: On site

**Hawthorne - Plant One**  
One Northrop Ave. - Gate #5  
Hawthorne, California 90250  
Free ATM Location:  
One Northrop Ave., Gate 5  
Restricted access

**Hawthorne - Plant 3 Cafeteria**  
Crenshaw Blvd. South of 120th Street  
South of Hawthorne Municipal  
Airport  
Hawthorne, California 90250  
Free ATM Location: On site

**El Segundo**  
One Hornet Way  
El Segundo, California 90245  
Free ATM Location: On site  
Restricted access

**Airport Park**  
898 Airport Park Road, Suite 101  
Glen Burnie, Maryland 21061  
Free ATM Location: On site

**WestQuest Building**  
1580B West Nursery Road  
Linthicum Heights, Maryland 21090  
Free ATM Location: On site

**Central Building**  
7323 Aviation Boulevard  
Linthicum, Maryland 21090  
Free ATM Location: On site  
Restricted access

**Hunt Valley**  
222 Schilling Circle, Suite 110  
Hunt Valley, Maryland 21031

**Rolling Meadows**  
600 Hicks Road  
Rolling Meadows, Illinois 60008  
Free ATM Location: On site

**Lake Charles**  
4400 Sen. J. Bennett Johnston Ave.  
Lake Charles, Louisiana 70615  
Free ATM Location: On site

**St. Augustine**  
5000 U.S. 1 North  
St. Augustine, Florida 32085  
Free ATM Location: On site

**McLean**  
7575 Colshire Drive  
McLean, VA 22102  
Free ATM Location: On site

**Rancho Bernardo**  
17066 Golden Top Road  
San Diego, California 92117  
Free ATM Location: On site

## Coming Soon:

Century City, CA • Chantilly, VA  
El Segundo, CA, F-35 Candle Bldg.

